

No. 8/5/DPM

Jakarta, February 7, 2006

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND BROKERS

IN INDONESIA

Subject: Government Securities Reverse Repo Transactions with Bank  
Indonesia within the Framework of Open Market Operations

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For the implementation of one form of Open Market Operations through buying and selling of Government Securities under Reverse Repo as stipulated in Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002, concerning Open Market Operations (State Gazette of the Republic of Indonesia Number 126 of 2002, Supplement to the Gazette of the Republic of Indonesia Number 4243) as last amended by Bank Indonesia Regulation Number 7/30/PBI/2005 dated September 13, 2005, (State Gazette of the Republic of Indonesia Number 84 of 2005, Supplement to the Gazette of the Republic of Indonesia Number 4533), it is deemed necessary to formulate regulatory provisions concerning Government Securities reverse repo transactions with Bank Indonesia within the framework of Open Market Operations in a Circular Letter of Bank Indonesia as follows:

I. GENERAL PROVISIONS

The terminology used in this Circular Letter has the following meanings:

1. "Bank" is a commercial bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting conventional business.
2. "Broker" ...

2. “Broker” is a rupiah and forex money market brokerage company and securities company appointed by the Minister of Finance of the Republic of Indonesia as bidder for Government Securities on the primary market.
3. “Open Market Operations,” hereinafter referred to as OMOs, are transactions on the money market conducted by Bank Indonesia with Banks and other parties for the purpose of monetary control.
4. “Government Securities,” hereinafter referred to as GS, are securities comprising debt instruments denominated in the rupiah currency and foreign currencies, in which payment of interest and redemption are guaranteed by the State of the Republic of Indonesia in keeping with their tenor.
5. “Bidder” is a Bank placing bids for its own account, and/or Broker placing bids for the account of a Bank.
6. “GS Reverse Repo Transaction,” hereinafter referred to as GS-RR, is a reverse repo GS purchase transaction by a Bank from Bank Indonesia with the obligation for resale at an agreed term and price.
7. “Reverse Repo Rate,” hereinafter referred to as RR-Rate, is the interest rate paid by Bank Indonesia for reverse repo GS purchase transactions by Banks.
8. “Bank Indonesia – Real Time Gross Settlement System,” hereinafter referred to as the BI-RTGS System, is a system for electronic funds transfer in the rupiah currency among members of the BI-RTGS System, as defined in the regulatory provisions concerning the BI-RTGS System.
9. “Bank Indonesia – Scripless Securities Settlement System,” hereinafter referred to as the BI-SSSS, is a facility for transactions with Bank Indonesia and electronic administration of securities as defined in the regulatory provisions concerning the BI-SSSS.
10. “Central Registry” is Bank Indonesia in the capacity of administering securities for the account of Banks, Sub-Registries, and other parties approved by Bank Indonesia.

11. “Funds Settlement” is the transfer of funds between Bank Indonesia and a Bank holding a rupiah demand deposit account at Bank Indonesia by means of the BI-RTGS System.
12. “Securities Settlement” is the transfer of Securities between Bank Indonesia and a Bank holding a Securities account at the Central Registry by means of the BI-SSSS facility.

## II. GENERAL MECHANISM FOR GS REVERSE REPO TRANSACTIONS

1. Bank Indonesia shall conduct GS-RR transactions for the purpose of monetary contraction using the auction mechanism.
2. GS-RR transactions as referred to in number 1 shall be conducted under the sell and buyback principle, regulated as follows:
  - a. In the first leg of the GS-RR transaction, Bank Indonesia transfers ownership of the traded GS to the securities trading account held by a Bank placing a winning bid.
  - b. At the second leg of the GS-RR transaction, the Bank as referred to in letter a is required to resell the GS to Bank Indonesia.
  - c. If a Bank fails to resell GS as referred to in letter b, the GS not resold by the Bank shall be treated as an outright transaction by the Bank.
3. The price of the GS in the transaction shall be determined by Bank Indonesia, taking into account fair market prices.
4. The GS-RR auction mechanism as referred to in number 1 may operate by means of:
  - a. Fixed rate tender

Bank Indonesia determines the RR-Rate for each tenor of transaction; or,

b. Variable ...

b. Variable rate tender

The Bank submits an RR-Rate bid for each quantity bid and maturity bid with the RR-Rate, with the RR-Rate bid calculated in multiples of 0.0625% (zero point zero six two five percent).

5. Tenor of transaction

a. A GS-RR transaction may have a tenor of 1 (one) month and 3 (three) months stated as number of calendar days and calculated from the transaction settlement date through the maturity date.

b. If the maturity date of a transaction falls on a Saturday, Sunday, or official holiday, the maturity date of the transaction as referred to in letter a shall be the subsequent working day.

6. Bidders may place bids for GS-RR except in the case of Bidders suspended from participating in OMO activities and/or suspended or closed as members of the BI-SSSS.

7. Settlement of the GS-RR auction shall be conducted 1 (one) working day after the auction date (one-day settlement) through the BI-SSSS facility connected directly to the BI-RTGS System.

### III. GS REVERSE REPO TRANSACTION PROCEDURE

#### A. Holding of Auctions

1. The GS-RR auction shall be held each month. If necessary, Bank Indonesia may hold the GS-RR auction weekly or biweekly.

2. The GS-RR auction shall be held on Wednesday or another designated working day.

3. Bank Indonesia, cq. Directorate of Monetary Management (DPM) – Monetary Operations Bureau (BOPM) shall announced the planned GS-RR auction no later than 1 (one) working day prior to the auction on the BI-SSSS facility and/or the Money Market Information Center (PIPU), in

the ...

the Commercial Bank Daily Report (LHBU), and/or by means of other facility prescribed by Bank Indonesia.

4. Announcement of the GS-RR auction as referred to in number 3 shall include the following:
  - a. Auction window time;
  - b. Indicative target and tenor of transactions;
  - c. Type, series, and price of the GS used as underlying assets;
  - d. Auction method;
  - e. The applicable RR-Rate if the auction is held using the fixed rate tender method;
  - f. Settlement date.
5. During the prescribed window time, Bidders shall place their GS-RR bids, encompassing bid quantity, RR-Rate, and GS series, with the BOpM by means of the BI-SSSS facility.
6. Submission of quantity bids by each Bank in the capacity of Bidder, whether directly or through a Broker, shall be in the amount of no less than Rp 1,000,000,000.00 (one billion rupiahs) and thereafter in multiples of Rp 100,000,000.00 (one hundred million rupiahs).

#### B. Determination of auction results

1. Bank Indonesia shall announce the GS-RR auction result immediately after closure of the window time for the GS-RR auction.
2. The results of a GS-RR auction conducted with the fixed rate tender method shall be determined as follows:
  - a. Transaction quantity bids placed by Bidders shall be accepted in full; or
  - b. Pro rata calculation with amounts rounded off to the nearest Rp 1,000,000.00 (one million rupiahs).

Examples ...

Examples of use of the fixed rate tender method, determination of winning bids, and settlement value are presented in Appendix-1.

3. The results of a GS-RR auction conducted using the variable rate tender method shall be determined as follows:
  - a. Bank Indonesia shall determine the highest acceptable RR-Rate bid.
  - b. The transaction quantity awarded to the Bank shall be calculated as follows:
    - 1) if the RR-Rate bid placed by the Bank is lower than the prescribed RR-Rate as referred to in letter a, the Bank shall be awarded the entire bid;
    - 2) if the RR-Rate bid placed by the Bank is equal to the prescribed RR-Rate as referred to in letter a, the Bank may be awarded the bid in whole or in part based on pro rata calculation.

Examples of the use of the variable rate tender method, the determination of winning bids, and settlement value are presented in Appendix-2.

4. Bank Indonesia may adjust the quantity outcome of the GS-RR auction in comparison to the indicative target or cancel the GS-RR auction.

#### IV. GS REVERSE REPO SETTLEMENT PROCEDURE

1. Bank Indonesia cq. Monetary Management Transaction Settlement Division (PTPM) shall conduct the settlement of the GS-RR auction by means of the BI-SSSS connected seamlessly to the BI-RTGS System at 1 (one) working day after the auction date (one-day settlement) using the gross to gross settlement mechanism.
2. Settlement as referred to in number 1 shall consist of:
  - a. Settlement of the first leg of the GS-RR auction result, consisting of:
    - 1) Funds Settlement by debiting the rupiah demand deposit account of the Bank at Bank Indonesia in the amount of the transaction quantity

awarded ...

awarded to the Bank multiplied by the GS price determined by Bank Indonesia.

- 2) Securities Settlement by crediting the securities account of the Bank at the Central Registry in the par value of the GS awarded to the Bank.
- 3) If the GS in the transaction carry coupon payments, Settlement shall be calculated as follows:
  - a) To the Funds Settlement value as referred to in number 1) shall be added the value of accrued interest commencing from the last coupon payment date through the date of the GS-RR transaction.
  - b) The coupon payment for the GS series in the transaction shall be received by the Bank awarded the bid according to the GS units awarded to the Bank. An example of coupon calculation is presented in Table 3 in Appendix-1.
  - c) The value of the coupon as referred to in letter b) shall be deducted from Bank Indonesia's obligation in the second leg of the GS-RR transaction with effect from the coupon payment date.
  - d) If Funds Settlement during the first leg takes place before the date of notification of coupon payment as notified on the BI-SSSS (ex-date report), the coupon shall be received by Bank Indonesia and shall not reduce the value of Funds Settlement in the second leg of the GS-RR transaction.
- 4) Banks must provide sufficient balance in the rupiah demand deposit at Bank Indonesia to cover Funds Settlement.
- 5) If a Bank has insufficient balance in the rupiah demand deposit account at Bank Indonesia as of the cut-off warning of the BI-RTGS System, the system shall automatically cancel the transaction and the Bank shall be liable to OMO sanctions.

b. GS-RR ...

b. GS-RR Settlement in the second leg, consisting of:

- 1) Funds Settlement by crediting the rupiah demand deposit of the Bank at Bank Indonesia in the amount of the first leg Funds Settlement value at maturity after deduction for coupon, if there is a coupon payment for the GS series in the transaction, plus the value of the RR-Rate.
- 2) Securities Settlement by debiting the securities account held by the Bank at the Central Registry in the par value of the traded GS during the first leg.
- 3) Banks are required to arrange sufficient balance of GS series in the securities account at the Central Registry for Securities Settlement.
- 4) If the Bank has insufficient balance in the securities account at the cut-off warning of the BI-RTGS System, the system will automatically cancel the GS-RR settlement in the second leg and the Bank shall be liable to OMO sanctions.
- 5) In respect of default on settlement of GS-RR in the second leg as referred to in number 4), the Bank shall not receive the RR-Rate and the GS series in the transaction shall be treated as outright buying by the Bank commencing from the maturity date of the GS-RR.
- 6) For the purpose of outright transaction as referred to in number 5), Bank Indonesia shall calculate the fair market value at the date of the second leg and accrued interest commencing from the date of the GS-RR transaction (first leg) through the maturity date of the GS-RR (second leg) if the GS carry coupons.
- 7) The result of the calculation referred to in number 6) shall be charged to the rupiah demand deposit account held by the Bank at Bank Indonesia.



## V. PROCEDURE FOR IMPOSITION OF SANCTIONS

1. In the event of insufficient funds as referred to in item IV.2.a.5) or insufficient GS series as referred to in item IV.2.b.4), the Bank shall be liable to OMO sanctions as follows:
  - a. Written warning with a copy to:
    - 1) The relevant Directorate of Bank Supervision, for sanctions imposed on a Bank having its head office in the working area of the Bank Indonesia Head Office; or
    - 2) The Bank Supervision Team – local area Bank Indonesia Regional Office, for sanctions imposed on a Bank having its head office in the working area of a Bank Indonesia Regional Office, and
  - b. A financial penalty of 0.1% (zero point one percent) of the amount of the cancelled transaction, up to a maximum of Rp 1,000,000,000.00 (one billion rupiahs); and
  - c. Suspension from participation in OMO activities for 5 (five) working days in the event that the Bank has been issued with a written warning and financial penalty for the third time within a period of 6 (six) months by reason of cancellation of OMO transaction.
2. Written warning as referred to in item 1.a. and notification of suspension from OMO activities as referred to in item 1.c shall be delivered 1 (one) working day after cancellation of the transaction.
3. The BI-SSSS shall automatically calculate the amount of the financial penalty as referred to in item 1.b. and charge the amount to the rupiah demand deposit account of the Bank concerned at Bank Indonesia by means of the BI-RTGS System at 1 (one) working day after cancellation of the transaction.

The provisions in this Circular Letter shall come into force on February 7, 2006.

For ...

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

BUDI MULYA  
DIRECTOR OF MONETARY  
MANAGEMENT